



# EXCHANGE

## Subcommittee on Capital Markets

**Richard H. Baker, Chairman**  
Securities, Insurance, Government-Sponsored Enterprises

**The News from U.S. Rep. Richard H. Baker**  
**Sixth District, Louisiana**

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**Opening Statement**  
**The Honorable Richard H. Baker**  
**Chairman, House Financial Services Subcommittee on**  
**Capital Markets, Insurance and Government Sponsored Enterprises**  
**April 4, 2001**  
**Joint Capital Markets-Financial Institutions Subcommittee Hearing**  
**On Merchant Banking Rules**

I would like to commend Chairman Bachus for taking such an active interest in this issue. I would also like to express my appreciation to our witnesses who have taken the time to testify before us today.

During the enactment of Gramm-Leach-Bliley, Congress went to great lengths to create a two-way street between banks and securities firms so that the financial regulatory structure would better reflect the realities of modern financial markets. An important part of the two-way street is the authority granted by the Act for financial holding companies (FHCs) and bank holding companies (BHCs) to conduct merchant banking investment activities.

Merchant banking -- private equity fund and direct equity investment in companies -- is a vital part of our economy. The funds provided through such investments can be the seed money for the new coffee shop on the corner or the latest biological research firm. They are also used by established companies to expand or restructure. In either scenario, merchant banking investments foster and reward innovation, create new jobs, and contribute to the country's economic growth.

Many financial institutions have been conducting merchant banking activities for decades prior to the Gramm-Leach-Bliley Act under a number of pre-existing authorities. Merchant banking portfolios have consistently performed well over the long term through both good and bad economic conditions.

The investors in these activities are not just the high net-worth clients and corporate giants. In fact, the largest merchant banking investor in the United States is represented here today in Credit Suisse

First Boston. I have been informed that 50 percent of their investment in merchant banking activities is placed for public pensions, including \$530 million from the teachers' pension fund of Louisiana.

It is incumbent upon government to promote the availability of this valuable source of capital to American businesses. I had serious concerns last year when the Federal Reserve and Treasury issued the initial rules on merchant banking activities and capital requirements that the rules contradicted the spirit and intent of the Gramm-Leach-Bliley Act. While the Federal Reserve and other regulators have gone a long way to improve the merchant banking rules that were issued last spring, I still question whether a special capital rule and restrictions on merchant banking investments are necessary.

I look forward to the testimony of our witnesses here today so that we can better understand the policy behind the final rule and the revised proposed capital rule. I am also interested to hear how the rules could be improved. If these rules truly act as an obstacle to merchant banking investments by FHCs and discourage securities firms from choosing FHC status, we must determine whether the regulators should reconsider the need for the rules and whether there is a need to examine the possibilities of legislative remedies.

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